

Message Text

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PAGE 01 RIO DE 00414 291444Z

21

ACTION COME-00

INFO OCT-01 ARA-06 EUR-12 ISO-00 AID-05 CIAE-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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R 291208Z JAN 76

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 3282

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

AMCONSUL PORTO ALEGRE UNN

AMCONSUL SALVADOR UNN

AMEMBASSY PARIS

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EO 11652: NA

TAGS: BENC BR

SUBJ: MAJOR PROJECT: BRAZIL'S THIRD PETROCHEMICAL POLE

REF: STATE 008367

1. COMMERCIAL COUNSELOR MET WITH DR. JOSE AUGUSTO ANGRISANI, PETROQUISA DIRECTOR AND CHIEF OF INTER-GOVERNMENTAL COMMISSION ESTABLISHED TO DIRECT THIRD PETROCHEMICAL POLE, TO EXPRESS USG INTEREST IN PROJECT AND ELICIT INFORMATION REGARDING FRENCH FINANCING OFFER. DURING COURSE OF CONVERSATION ANGRISANI CONFIRMED USDOC UNDERSTANDING THAT GOB HAS RECEIVED FINANCING OFFER FROM FRENCH. HE ADDED THAT ENGLISH AND JAPANESE HAD ALSO SUBMITT AJ FINANCING PROPOSALS. HOWEVER, FRENCH APPEAR TO BE THE MOST AGGRESSIVE. ACCORDING TO ANGRISANI, FRENCH HAVE MADE FINANCING OFFER OF UP TO US\$500 MILLION ON "MATCHING BASIS", THAT IS, AMOUNT OF SERVICES AND EQUIPMENT SOURCED IN FRANCE WOULD BE MATCHED BY EQUAL AMOUNT AVAILABLE FOR LOCAL COSTS. FRENCH PROPOSAL

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PAGE 02 RIO DE 00414 291444Z

NOW BEING STUDIED BY BNDE. HE INDICATAD TERMS WERE VERY GENEROUS

AND GAVE AS AN EXAMPLE 20 YEAR LOAN AT 3 PERCENT ANNUAL INTEREST WITH UNSPECIFIED GRACE PERIOD (IT WAS NOT CLEAR WHETHER ANGRISANI WAS REFERRING TO EXACT TERMS OF FRENCH OFFER OR CITING ILLUSTRATIVE TERMS).

2. ANGRISANI FURTHER SAID COMMISSION HAD RECEIVED INDICATIONS OF INTEREST FROM US FIRMS AND MENTIONED LUMMUS AND STONE/WEBSTER IN PARTICULAR. LATTER FIRM SCHEDULED TO VISIT PETROQUISA IN FEBRUARY. HE STATED TECHNICAL SPECIFICATIONS FOR CORE PLANT ARE EXPECTED TO BE READY BY APRIL. PROPOSALS FROM INTERESTED FIRMS ARE TO BE SUBMITTED BY JUNE AND DECISION ON CONTRACT FOR DESIGN/CONSTRUCTION IS TO BE LET BY THIRD QUARTER 1976 IN LINE WITH PARA 3 REFTEL. HE STATED ALSO THAT DECISION HAD NOT YET BEEN MADE WHETHER TO HAVE COMPETITIVE BIDDING OR NEGOTIATED CONTRACT.

3. ANGRISANI CONFIRMED DEPARTMENT'S UNDERSTANDING THAT BRAZILIANS WISH TO MAXIMIZE LOCAL PROCUREMENT IN EQUIPMENT, ENGINEERING AND CONSTRUCTION. WITH RESPECT TO EQUIPMENT HE INDICATED GOVERNMENT HOPES TO HAVE AS MUCH AS 80 PERCENT LOCAL PROCUREMENT. HE ADMITTED THIS WAS IDEAL FIGURE AND THAT ULTIMATE AMOUNT WOULD DEPEND ON AVAILABILITY OF LOCAL SUPPLY. FOREIGN FIRMS WOULD BE EXPECTED TO ARRANGE TRANSFER OF TECHNOLOGY FOR ENGINEERING IN ASSOCIATION WITH NATIONAL ENGINEERING FIRMS. IN THIS RESPECT, HE INDICATED THAT INTERESTED FOREIGN FIRMS HAVE ALREADY ESTABLISHED RELATIONSHIPS WITH LOCAL ENGINEERING FIRMS - STONE & WEBSTER WITH PROMON, LUMMUS WITH CETAL (WHOLLY OWNED SUBSIDIARY), TECHNIP (FRENCH) TOGETHER WITH KTI (DUTCH) ASSOCIATED WITH TWO LOCAL FIRMS MONTREAL ENGENHARIA AND NATRON. HE ALSO MENTIONED SIMILAR ASSOCIATIONS BETWEEN ENGLISH AND BRAZILIAN FIRMS.

4. ON CORE UNIT PETROQUISA IS CONTEMPLATING PERMITTING FOREIGN EQUITY PARTICIPATION UP TO A LIMIT OF 20 PERCENT. EQUITY PARTICIPATION IS TO BE USED AS PARTIAL PAYMENT FOR FOREIGN SERVICES AND EQUIPMENT TO BE USED IN INSTALLING UNIT THEREBY REDUCING FOREIGN EXCHANGE COSTS DURING THIS DIFFICULT PERIOD FOR BRASIL'S TRADE BALANCE. AS USDOC PROBABLY KNOWS, TERM "CORE UNIT" IS BROADER THAN JUST ETHYLENE FACILITY AND INCLUDES A MAINTENANCE UNIT AND UTILITIES UNIT.

5. COMMENT: ANGRISANI LEFT DISTINCT IMPRESSION FRENCH WISH TO LIMITED OFFICIAL USE

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PAGE 03 RIO DE 00414 291444Z

PARTICIPATE IN THIRD PETROCHEMICAL POLE VERY BADLY AND ARE PULLING OUT ALL STOPS TO WIN CONTRACT. WE ASSUME THAT ORIGINAL FRENCH GIFT OF FEASIBILITY STUDY AND "MATCHED" FINANCING ARRANGEMENT ON CONCESSIONARY TERMS DESCRIBED PARA ONE ABOVE ARE BLENDED INTO FRENCH DEVELOPMENT ASSISTANCE PROGRAM AND, IN THIS CASE, ABLY ABET FRENCH COMMERCIAL OBJECTIVES. ATTRACTIVE FINANCING APPEARS TO US TO BE MAIN FACTOR IN THIS PROJECT. WHILE THE POSSIBILITY OF INTERNATIONAL COMPETITIVE BIDDING IS STILL FORMALLY

MENTIONED, IT IS OBVIOUSLY IN THE GOB'S INTEREST TO OPT FOR A
NEGOTIATED CONTRACT INVOLVING EQUITY PARTICIPATION AND FAVORABLE
FINANCING. IN VIEW OF STATED DESIRE REGARDING LOCAL PROCUREMENT
AND TRANSFER OF TECHNOLOGY, WE BELIEVE US FIRMS MAY STILL BE IN
THE RUNNING PROVIDED AN ATTRACTIVE FINANCIAL PACKAGE CAN BE
PRESENTED TO OKFSET, AT LEAST IN PART, FRENCH PROPOSAL. AS A
SUGGESTION, IF US FIRMS ARE CONSIDERING EQUITY PARTICIPATION, CAN
BROADER CARD THAN JUST ETHYLENE PRODUCTION KNOW-HOW BE PLAYED?
SPECIFICALLY, FOREIGN PARTICIPANT IN CORE UNIT WILL ALSO BE IN
GOOD POSITION TO INFLUENCE OTHER "CORE" ACTIVITIES IN RELATION
TO FOREIGN SOURCING, E.G. POLLUTION CONTROL, MACHINE TOOLS FOR
MAINTENANCE CENTER.
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